

Minutes Of The Board Of Trustees City Of Cincinnati Retirement System June 7, 2005

The Chairman called the meeting to order at 1:30 p.m. with the following members present:

V. Daniel Radford, Chairman
William Moller, Secretary
Joe Harrison
Brian Pickering
Ely Ryder
Marijane Klug
Michael Rachford

Members Absent

Valerie Lemmie, City Manager
Mayor Charlie Luken
John Cranley, Councilmember

The Chairman called for a motion to approve the minutes of the April 7, 2005 and the May 5, 2005 Board Meetings. The motion was made by Mr. Pickering, seconded by Mr. Harrison and carried by the Board. The minutes were approved as prepared by the Secretary.

BENEFITS COMMITTEE

Mr. Harrison, Chairman, Benefits Committee, reported that the Committee met on May 25, 2005 in Committee Room B. Mr. Harrison presented the following report to the Board.

1. Application for Ordinary Retirement June 5, 2005: Total – 15

NO.	NAME	DEPARTMENT
36549	Deborah Anderson	Health
36553	Peggy Noonan	Health
37757	Donald Hutchins	Water Works
39165	Vickie Stidham	University of Cincinnati
39351	Frank Boswell, Jr.	MSD
41465	Jynella Perdue	University of Cincinnati
43318	Constance Bivens	University Hospital
43336	Lavetta Lewis	University of Cincinnati
45584	Ronald Miller	MSD
45724	Woodrow Roberts	MSD
49831	Jesse Barnes	Finance
50322	Thomas Rotte	Health
51398	Mustafa Saleem	MSD
61697	Joyce Ballard	Health
42020	Audrey Ates	Police

2. Application for Retired Members Deaths: Total – 7

3. Application for Disability Retirement Benefits: Total - 2

NO.	NAME	DEPARTMENT
51915	Connie Jones	Recreation
49601	James Kelly	Water Works

4. Application for Deferred Retirement: Total – 1

NO	NAME	DEPARTMENT
51442	Annette Armstrong	Neighborhood Services

Mr. Harrison moved that the Board accept the report of the Benefits Committee. The motion was seconded by Mr. Ryder and carried by the Board.

INVESTMENT COMMITTEE

Mr. Moller called for a correction to be made to the May 2005 Board Notes. The Investment Committee did not meet in April 2005. The Investment Committee meeting was held on May 6, 2005.

Mr. Moller reported that Mr. Bill Leuggers and Mr. Steve Dilbone (both Managing Directors) from Gradison McDonald were on hand to discuss investment performance, investment philosophy, etc. Mr. Leuggers stated that although Gradison McDonald is a large-cap value manager, their investment process will occasionally drive them toward a more core style portfolio. However, their process would never result in a growth style portfolio.

When asked by the Committee about market return expectations, Mr. Leuggers commented that they do not think the historical stock markets returns of 10% to 11% are not likely to occur in the near future. They are expecting returns in the mid to high single digits, and they are seeing pension plan return assumptions falling from the 8% to 9% range to a more modest ranges of around 7%.

Mr. Moller also reported that the investment consultant presented the investment performance report for the first quarter. During the quarter, the total fund had a negative investment return (-0.55%), but it out-performed the Cincinnati index which had a return of -1.25%. The Investment Committee made no changes to the status of managers currently on the watch list. Mr. Moller noted that there are four managers on the watch list for qualitative reasons and one on the list for under-performance.

SECRETARY'S REPORT

The Secretary submitted the following report:

1. Resolution for Enrollment of New Members – Total: 74
2. Resolution for Return of Contributions & Death Benefits– Total: 40
Amount: \$208,181.05
3. Resolution for Loans to Members – Total: 55 Amount: \$675,944.15
4. Report on Deaths of Pensioned Members – Total: 14

The Secretary submitted the following vouchers for payment:

PAYEE	AMOUNT
All Star Personnel Inc. – Temporary Personnel Services	\$812.50
The Bank of New York – Custodial fees from 10/01/05-12/31/04	\$25,355.19
City of Cincinnati Treasurer – Reimbursement for services performed by Treasury from July 1, 2004 – December 31, 2004	\$15,814.14
City of Cincinnati Accounts & Audits – 1 st Qtr. 2005 Cinsy Billing and December 2004 Cinsy Billing	\$23,549.40
City of Cincinnati Treasurer – Reimbursement of Palmetto GBA payments	\$550,836.62
Wyoming Tours & Travel LTD, Airfare to PensionGold Conference in Dallas. TX on May 14-17, 2005 for M. Filgis & C. Roberts	\$1,206.80
Amerisuites Dallas West End – Hotel Lodging for M. Filgis & C. Roberts	\$552.00
Mae Consulting Inc. – Professional Services Rendered	\$200.00
ABS Business Products Inc. – Monthly Rental Base Rate for Copier	\$180.00
Millennium Business Systems – Service for fax machine	\$115.00
Accordia – Fiduciary Liability Annual Premium	\$39,950.00
All Star Personnel Inc. – Temporary Personnel Services	\$1,173.14
Marilyn Filgis – Reimbursement for per diem during conference	\$166.50
Christine Roberts – Reimbursement for per diem during conference	\$166.50
All Star Personnel Services Inc. – Temporary Personnel Services	\$1,790.64
Ohio Public Employees Retirement System – Prior Service Credit Reciprocity Payments for A. Price and J. Kelly	\$27,881.22

Ohio Public Employees Retirement System – Prior Service Credit Reciprocity Payments for D. Louis	\$83,152.52
Ohio Police & Firemen’s Pension Fund – Prior Service Credit Reciprocity Payments for S. Drescher	\$3,071.14

The Secretary reported that at the close of business May 31, 2005, there was in the Treasury to the credit of the Retirement System the amount of \$721,853.73.

Asset Valuation:

- December 31, 2004: \$2.40 billion
- April 30, 2005: \$2.32 billion
- YTD Increase (Decrease): (3.11%)

Current Asset Allocation: (Policy Objective)

- Domestic Equity: 51.0% (50%)
- International: 14.2% (13.5%)
- Fixed Income: 33.9% (33.5%)
- Alternative Assets/Treasury Cash: 0.9% (3%)

PENDING BUSINESS

Mr. Harrison reported that an additional Board Member is needed to serve on the upcoming Election to be held June 7, 2005. Because of Mr. Rachford’s seat is up for election, he cannot serve as an Election Committee member. Mr. Radford asked Ms. Klug to temporarily serve in Mr. Rachford’s place.

A discussion was held regarding Mr. Pickering’s previous motion on Strategic Planning Goals for the Retirement System in order to develop strategies and performance standards for the Board. Mr. Ryder stated it is important to have the new Pension Fund Manager involved in this process. Mr. Radford indicated that the Board should look locally for a consultant to help facilitate the process. Mr. Moller suggested the Board establish a sub-committee to help with is and to keep the process moving.

Further discussion was held on the search for a Citizen Board Member to replace Mr. Bowling whose term expired February 1, 2005. Mr. Rachford stated that a couple of potential candidates have been submitted for consideration.

NEW BUSINESS

Actuary Report

Mr. Gary Dickson of Mercer Human Resource Consulting was on hand to present the actuarial reports again to the Board, for the year ended 12/31/04.

Mr. Dickson began his presentation by summarizing the report with the following three comments:

- 1) The funding progress of the plan held relatively steady in 2004 is now below 94%.
- 2) The required contribution to pay for both benefits and the un-funded liability increased from 30.3% of pay to 32.2% of pay.
- 3) The current total contribution rate of 18.5% (11% employer contributions and 7% employee contribution) is not enough to cover the normal cost of providing benefits. Thus, the plan is on a path to become more under-funded unless changes are made to the plan design, contributions are increased, or investment returns exceed the 8.75% assumed rate of return.

Other points made by Mr. Dickson include:

- 1) The number of full-time active participants has continued to decline. This is a result of fewer active members from the dosed groups as well as the number of full-time hires by the City continuing to decline. Mr. Dickson also reported that the number of retirees has remained relatively steady over the past few years, but there is a significant number of current members (about 25%) eligible to retire within the next five years.
- 2) The fund experienced an actuarial gain to \$30 million on investment experience in 2004. The smoothing method utilized by the fund will result in these gains being recognized equal installments over a five-year period.
- 3) Because IRS regulations limit healthcare contributions, the CRS may have to set up a VEBA Trust in order to fully fund medical liabilities.
- 4) The investment return assumption of 8.75% is rather optimistic, and Mr. Dickson would be more comfortable with verifying the results if a lower return assumption was used.
- 5) A decrease in the return assumption would increase the contribution rate, but it would not affect the actual costs of providing benefits.

After discussion, Mr. Ryder moved that Mr. Moller seconded the motion that the Board approve the December 31, 2004 valuation report as presented by the Actuary. The motion passed unanimously by the Board.

Actuary Presentation on Medicare Part D (Prescription Drug Coverage)

Gary Dickson and Tom Hackman from Mercer Consulting were on hand to review with the Board the alternatives for incorporating the prescription drug coverage currently offered to retirees by the CRS with the benefits that will be provided by Medicare effective January 1, 2006.

Mr. Hackman reported that they have already held one meeting with Mr. Moller and the retirement staff to discuss the advantages and disadvantages of each coordination of benefits option available to the CRS. Mr. Moller informed the Board that it will be important to get information out to retirees by late July, so it would be very helpful if the Board could reach a consensus on this issue at this meeting.

Mr. Hackman stated there were five options for implementing the new Medicare D coverage. However, the discussion would focus on the two most feasible options which are:

- 1) Continue to provide CRS's current prescription drug plan and get a subsidy from Medicare to reimburse a portion of the total cost, or
- 2) The Medicare D plan would become the primary prescription drug coverage and the CRS's drug coverage would become the secondary plan.

Mr. Moller commented that at the earlier meeting between Mercer and the CRS staff, there was unanimous support on selection of the reimbursement option. This option eases the burden on retirees as they will continue to have the drug benefits plan they have become accustomed to and they will not have to take any action regarding review of drug benefits packages, applying for coverage, etc. To implement this option, the CRS staff will have to provide Medicare with an electronic file of names and social security numbers of all covered beneficiaries in order to obtain reimbursement from Medicare.

Mr. Moller also commented that the CRS will need to be proactive in getting information out to retirees before they start getting information from vendors offering to provide the new Medicare D drug coverage. This subsidy option will require retirees to do nothing, but we must be prepared to send them several notifications that:

- 1) The current CRS drug coverage will remain intact,
- 2) Although they are likely to be inundated with solicitations from vendors providing the Medicare D drug coverage, they should not sign up for any plans.
- 3) Any retirees who do sign up for the new plan may actually be subject to a reduction in drug coverage as the CRS would not receive any subsidies for those members.

Mr. Moller also commented that it appears most plan sponsors will be choosing the subsidy option for 2006, and that we could change our option in 2007 if we determine one of the other options better fits the needs of the CRS. Mr. Moller also commented that the subsidy option would be the least problematic for retirees as well as the CRS staff.

Mr. Dickson informed the Board that the subsidy option also provides a little more in cost savings than had been previously included in the actuarial projections. The actuary is estimating that the total contribution could be reduced by 0.8% of payroll, which is about \$1.3 million per year.

After discussion, Mr. Moller submitted the following motion:

I move that the Board direct staff to do all that is necessary to implement Medicare D coverage. I further move that retirees not be penalized for signing up with a Medicare D service provider, and that the Board inform City Council of their decision to select the subsidy option. Ms. Klug offered a friendly amendment that the costs reimbursed by Medicare are returned directly to the Cincinnati Retirement System, and that the Medicare D information be forwarded to retirees as soon as possible.

Mr. Moller accepted the friendly amendment, and Ms. Klug seconded the motion. The motion passed unanimously.

Ms. Klug also suggested that the CRS web site be used to notify the retirees of the new Medicare D drug coverage.

Mr. Ryder submitted the following motion to the Board:

I move that the Board of Trustees certify in accordance with Section 203-101 of the Cincinnati Municipal Code the amount of the employer contribution payable to the Retirement Fund based on the 2003 and 2004 Actuary's Reports accepted by the Board. I further move that the Secretary be directed to advise the Retirement System employers of the amounts so certified.

Ms. Klug seconded the motion, and the motion passed unanimously.

Mr. Moller informed the Board that in accordance with Board rules XVIII and XIX, the retirement staff just completed an Annual Disclosure of Financial, Actuarial, and Operational Status Report for 2004, and a copy of the report was provided to Board members at the beginning of this meeting. Mr. Moller commented that most of the information included in the report was already provided in various reports prepared by the retirement staff or the professional consultants, but this report now combines all the information into one document. Ms. Klug suggested this information also be included on the CRS web site.

Mr. Rachford inquired if the Board had made a decision on the issue regarding Mr. Tom Ellis. Ms. Hardin responded that a response from the City Solicitor's office would be issued very soon.

ADJOURNMENT

Upon request of the Chairman for a motion to adjourn, the motion was made by Ms. Klug, and seconded by Mr. Harrison and carried by the Board. The meeting was adjourned at 2:40 p.m.